

ELM RIVER TOWNSHIP SCHOOL DISTRICT
TOIVOLA, MICHIGAN

FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Elm River Township School District
Toivola, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elm River Township School District as of and for the year then ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Elm River Township School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Elm River Township School District as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2006 on our consideration of Elm River Township School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The management's discussion analysis and budgetary comparison information on pages 6 through 10 and 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Elm River Township School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplemental Financial Information listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements of the Elm River Township School District. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

September 20, 2006



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Elm River Township School District
Toivola, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elm River Township School District as of and for the year then ended June 30, 2006, and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Elm River Township School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elm River Township School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

September 20, 2006

**Elm River Township School District
Management's Discussion and Analysis
June 30, 2006**

This section of Elm River Township School District's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in the School Food Service fund.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund meets this requirement

Non-major Funds: In the basic financial statements, the non-major fund is represented by one column. This is a smaller fund. Detailed information about the non-major fund can be found after the notes to the financial statements.

**Elm River Township School District
Management's Discussion and Analysis
June 30, 2006**

Overview of the Financial Statements - Continued

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General and School Food Service Funds.

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	Current Year	Prior Year	Change
General Fund:			
Revenues/Transfers	\$ 204,722	\$ 191,392	\$ 3,187
Expenditures/Transfers	\$ 210,822	\$ 199,941	\$ 10,881
Fund Balance	\$ 96,398	\$ 102,498	\$ (6,100)
School Food Service Fund:			
Revenues/Transfers	\$ 22,991	\$ 20,121	\$ 2,870
Expenditures/Transfers	\$ 21,720	\$ 19,814	\$ 1,906
Fund Balance	\$ 2,775	\$ 1,504	\$ 1,271

General Fund - Revenue was slightly higher than previous year due to an increase in interest revenue, the Homeland Security Grant, and the sale of items for the District's Centennial celebration. Expenses were also higher because of payroll and benefit increases, small classroom improvements, and purchases for the Centennial celebration.

School Food Service Fund - An increase of revenue is a result of state and federal reimbursements being higher than expected. Expenses were also higher because of payroll, benefit, and food expenses increasing.

Overview of the Financial Statements - Continued

Summary of Net Assets

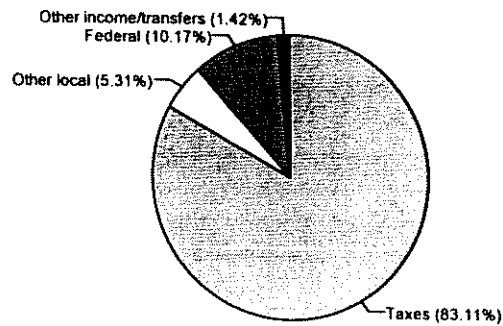
	2006	2005
Assets		
Current and other assets	\$ 145,058	\$ 151,283
Capital assets - Net of accumulated depreciation	28,474	31,891
Total Assets	<u>\$ 173,532</u>	<u>\$ 183,174</u>
Liabilities		
Current liabilities	\$ 45,885	\$ 47,281
Total Liabilities	<u>45,885</u>	<u>47,281</u>
Net Assets		
Invested in capital assets	28,474	31,891
Unrestricted	99,173	104,002
Total net assets	<u>127,647</u>	<u>135,893</u>
Total Liabilities and Net Assets	<u>\$ 173,532</u>	<u>\$ 183,174</u>

Results of Operations in Governmental Activities

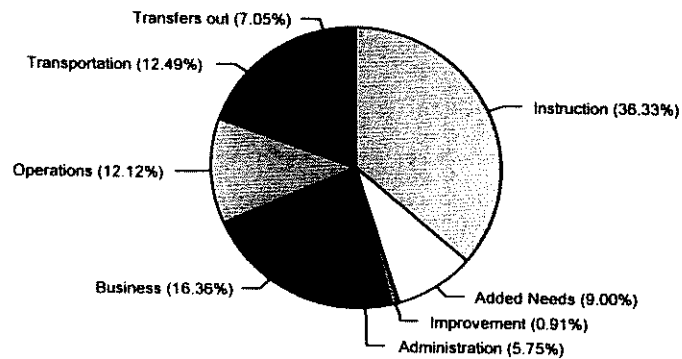
	2006	2005
Program Revenue:		
Charges for services	\$ 1,838	\$ 1,887
Grants and contributions	29,646	26,742
General Revenue:		
Property taxes	170,147	159,518
Interest and investment earnings	3,106	
Transfers	2,898	-
Other	3,850	9,396
Total Revenue	<u>211,485</u>	<u>197,543</u>
Functions/Program Expenses		
Instruction	96,726	92,763
Support services	101,285	95,697
School food services	21,720	19,814
Total Expenses	<u>219,731</u>	<u>208,274</u>
Change in Net Assets	(8,246)	(10,731)
Net Assets - Beginning	135,893	146,624
Net Assets - Ending	<u>\$ 127,647</u>	<u>\$ 135,893</u>

The following charts highlight the District's General Fund activities:

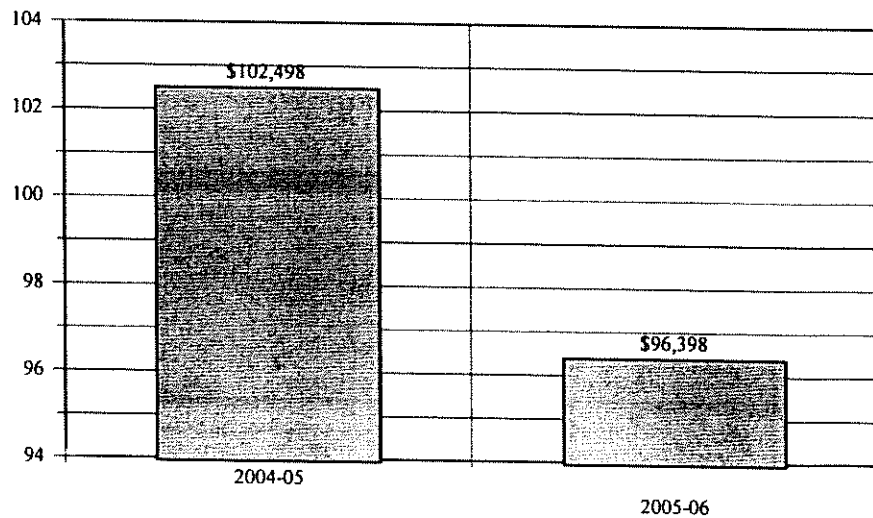
2005-06 Revenues



2005-06 Expenditures



Fund Balance Comparison



Changes to Budget and Comparison to Actual Results

The original budget is required to be adopted before the beginning of the fiscal year by State law. For this fiscal year, the original budget was adopted on June 21, 2005. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. There were no significant variances for the fiscal year ended June 30, 2006 in the general fund.

Capital Assets

The District's net investment in capital assets increased by \$1,050 during the fiscal year. The addition includes a laptop computer for the General Fund. The District's net investment in capital assets decreased by \$5,330 due to the sale of two buses and the disposal of two computers.

Additional information on the District's capital assets can be found on page 19 of this report.

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

The District does not receive State Aid due to declining pupil count. Elm River Township School District operates on millage levy from non-homestead properties, with State Education Tax levy from homestead properties going to Michigan State Aid Fund and remaining there.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Elm River Township School.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 134,914
Taxes receivable	<u>10,144</u>
TOTAL CURRENT ASSETS	<u>145,058</u>
NON-CURRENT ASSETS:	
Capital assets	45,481
Less: Accumulated depreciation	<u>(17,007)</u>
TOTAL NON-CURRENT ASSETS	<u>28,474</u>
TOTAL ASSETS	<u>\$ 173,532</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 1,396
Accrued expenses	4,682
Due to other governmental units	<u>39,807</u>
TOTAL CURRENT LIABILITIES	<u>45,885</u>
TOTAL LIABILITIES	<u>45,885</u>
NET ASSETS	
Invested in capital assets	28,474
Unreserved	<u>99,173</u>
TOTAL NET ASSETS	<u>127,647</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 173,532</u>

The accompanying notes to financial statements are an integral part of this statement.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

	<u>Program Revenues</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>FUNCTIONS/PROGRAMS</u>				
Government Activities:				
Instruction and instructional support	\$ 96,726	\$ -	\$ 23,362	\$ (73,364)
Support services	101,285	-	-	(101,285)
School service	<u>21,720</u>	<u>1,838</u>	<u>6,284</u>	<u>(13,598)</u>
Total Governmental Activities	<u>\$ 219,731</u>	<u>\$ 1,838</u>	<u>\$ 29,646</u>	<u>(188,247)</u>
General Revenues:				
Taxes				
Property taxes, levied for general operation:				170,147
Interest and investment earnings				3,106
Other				3,850
Transfers				<u>2,898</u>
Total general revenues and transfers				<u>180,001</u>
Change in Net Assets				(8,246)
Net Assets - Beginning				<u>135,893</u>
Net Assets - Ending				<u>\$ 127,647</u>

The accompanying notes to financial statements are an integral part of this statement.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2006

	<u>General</u>	<u>Other Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 132,052	\$ 2,862	\$ 134,914
Taxes receivable	<u>10,144</u>	<u>-</u>	<u>10,144</u>
TOTAL ASSETS	<u>\$ 142,196</u>	<u>\$ 2,862</u>	<u>\$ 145,058</u>
LIABILITIES:			
Accounts payable	\$ 1,396	\$ -	\$ 1,396
Accrued expenses	4,595	87	4,682
Due to other governmental units	<u>39,807</u>	<u>-</u>	<u>39,807</u>
TOTAL LIABILITIES	<u>45,798</u>	<u>87</u>	<u>45,885</u>
FUND BALANCES:			
Unreserved	<u>96,398</u>	<u>2,775</u>	<u>99,173</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 142,196</u>	<u>\$ 2,862</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

28,474

Net assets of governmental activities

\$ 127,647

The accompanying notes to financial statements are an integral part of this statement.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2006

	General Fund	Other Non-major Governmental Funds	Totals
REVENUES			
Local sources	\$ 181,012	\$ 1,838	\$ 182,850
State sources	-	1,367	1,367
Federal sources	20,812	4,917	25,729
Total revenues	<u>201,824</u>	<u>8,122</u>	<u>209,946</u>
EXPENDITURES			
Instruction	95,564	-	95,564
Supporting services	100,389	-	100,389
School service	-	21,720	21,720
Total expenditures	<u>195,953</u>	<u>21,720</u>	<u>217,673</u>
Excess (deficiency) of revenue over expenditures	<u>5,871</u>	<u>(13,598)</u>	<u>(7,727)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in (out)	(14,869)	14,869	-
Incoming transfers - other schools	2,898	-	2,898
Total other financing sources (uses)	<u>(11,971)</u>	<u>14,869</u>	<u>(2,898)</u>
NET CHANGE IN FUND BALANCE	(6,100)	1,271	(4,829)
FUND BALANCES - BEGINNING OF YEAR	<u>102,498</u>	<u>1,504</u>	
FUND BALANCES - END OF YEAR	<u>\$ 96,398</u>	<u>\$ 2,775</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(2,058)
Proceeds from sale of fixed assets	<u>(1,359)</u>
Change in net assets of Governmental Activities	<u>\$ (8,246)</u>

The accompanying notes to financial statements are an integral part of this statement.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Elm River Township School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

REPORTING ENTITY

Elm River Township Schools (the "District") is governed by the Elm River Township School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term and receivables. The District's net assets are reported in two parts – invested in capital assets and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does not allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

The School District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Non-major fund:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service.

Accrual Method

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Accounting Policies

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standard also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statues authorizes the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

Property taxes levied by the District are collected by Elm River Township and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied 16.8 mills of non-homestead assessed value for general fund.

Receivables and Payables

Activity between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory - The District utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the district-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassification

Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
7. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section..

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE C - CASH AND INVESTMENTS

At year-end, the School District's deposits were reported in the basic financial statements as governmental activities as cash equivalents in the amount of \$134,914.

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$9,531 of the District's bank balance of \$135,297 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

NOTE D - FIXED ASSETS

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
Land	\$ 11,740	\$ 0	\$ 0	\$ 11,740
Building and additions	8,141	0	0	8,141
Improvements other than building	5,950	0	0	5,950
Equipment and furniture	21,430	1,050	2,830	19,650
Buses	2,500	0	2,500	0
	<u>49,761</u>	<u>1,050</u>	<u>5,330</u>	<u>45,481</u>
Accumulated depreciation:				
Building and additions	1,586	388	0	1,974
Improvements other than building	2,289	280	0	2,569
Equipment and furniture	13,683	1,611	2,830	12,464
Buses	312	156	468	0
	<u>17,870</u>	<u>2,435</u>	<u>3,298</u>	<u>17,007</u>
Net capital assets	<u>\$ 31,891</u>	<u>\$ (1,385)</u>	<u>\$ 2,032</u>	<u>\$ 28,474</u>

Depreciation expense was charged to governmental activities of the School District as follows:

Instruction	\$ 2,279
Operations	156
TOTAL	<u><u>\$ 2,435</u></u>

NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2006 are as follows:

Fund	Transfer In	Fund	Transfer Out
School Service	<u>\$ 14,869</u>	General	<u>\$ 14,869</u>

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE F - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least ten years of credited service; or after age sixty with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 14.87% of covered compensation through September 30, 2005 and 16.34% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2006 was \$14,804, which consisted of \$13,500 from the District and \$1,304 from employees electing the MIP option. These represent approximately 15.88% and 1.53% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2006 was approximately \$84,964. The District's total payroll was approximately \$121,636.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among MPERS and employers. The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2005 for the MPERS as a whole, the actuarial accrued liability was \$46.3 billion. The pension plan net assets were \$39.3 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 84.88%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2005 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPERS' September 30, 2005 annual report.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE G - STATE FOUNDATION REVENUE

The State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 16.8002 mills for non-homestead property taxes. The State revenue is recognized during the foundation period (currently the fiscal year).

2005-06 Foundation		\$ 8,119.00
Less local support:		
Nom-Homestead Tax Value	10,127,682	
Multiplied by mills	16.8002	
Total local support	170,147.08	
Divided by General Education K-6	14.5	
Calculated Local Support		11,734.28
Amount is Negative, School is out of formula		<u><u>\$ (3,615.28)</u></u>

NOTE H - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 14 as follows:

Total current payments per R7120	\$ 7,510
Less: School Breakfast Program State	(1,329)
Plus: USDA Commodities received	1,530
Small Rural School Achievement	18,018
Total Federal Financial Assistance	<u><u>\$ 25,729</u></u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2006 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE I - CONTINGENT LIABILITIES

Risk Management

Elm River Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Elm River Township School District joined together with other school districts currently operating a common risk management and insurance program. Elm River Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE I - CONTINGENT LIABILITIES (Continued)

Elm River Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2006, which can be obtained through the School District.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

ELM RIVER TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final to Actual</u>
REVENUES:				
Local sources	\$ 182,836	\$ 182,836	\$ 181,012	\$ (1,824)
State sources	-	-	-	-
Federal sources	21,055	21,055	20,812	(243)
TOTAL REVENUE	203,891	203,891	201,824	(2,067)
EXPENDITURES:				
Instruction	95,691	95,691	95,564	127
Supporting services	101,355	101,355	100,389	966
TOTAL EXPENDITURES	197,046	197,046	195,953	1,093
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,845	6,845	5,871	(974)
OTHER FINANCING SOURCES (USES)				
Incoming transfers - other schools	2,700	2,700	2,898	198
Operating transfers in (out)	(14,500)	(15,000)	(14,869)	131
Total other financing sources (uses)	(11,800)	(12,300)	(11,971)	329
NET CHANGE IN FUND BALANCE	<u>\$ (4,955)</u>	<u>\$ (5,455)</u>	<u>(6,100)</u>	<u>\$ (645)</u>
FUND BALANCE - BEGINNING OF YEAR			102,498	
FUND BALANCE - END OF YEAR			<u>\$ 96,398</u>	

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

ELM RIVER TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Taxes:				
Current taxes	\$ 182,836	\$ 170,147	\$ (12,689)	\$ 159,518
Total taxes	182,836	170,147	(12,689)	159,518
Other local sources:				
Investment revenue	-	3,106	3,106	1,763
Contributions	-	2,550	2,550	1,627
Miscellaneous	-	5,209	5,209	4,267
Total other local sources	-	10,865	10,865	7,657
Total local sources	182,836	181,012	(1,824)	167,175
State sources:				
Unrestricted State Aid	-	-	-	2
Federal sources:				
Title I	-	947	947	1,114
Title V	-	18	18	84
Title II	-	1,829	1,829	1,841
REAP	21,055	18,018	(3,037)	17,812
Total federal sources	21,055	20,812	(243)	20,851
TOTAL REVENUES	203,891	201,824	(2,067)	188,028
EXPENDITURES:				
Instruction:				
Elementary School	74,636	76,598	(1,962)	71,727
Added needs:				
Compensatory education	21,055	18,966	2,089	18,926
Total instruction	95,691	95,564	127	90,653
Supporting Services:				
Instructional staff:				
Improvement of instruction	-	1,911	(1,911)	1,925
General administration	11,480	12,115	(635)	11,150
Business-fiscal services	35,693	34,496	1,197	32,517
Operation & maintenance	28,177	25,543	2,634	27,310
Pupil transportation	26,005	26,324	(319)	22,416
Total supporting services	101,355	100,389	966	95,318
TOTAL EXPENDITURES	197,046	195,953	1,093	185,971

ELM RIVER TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
EXCESS OF REVENUES OVER EXPENDITURES	6,845	5,871	(974)	2,057
OTHER FINANCING SOURCES (USES):				
Incoming transfers - other schools	2,700	2,898	198	3,364
Operating transfer out	<u>(15,000)</u>	<u>(14,869)</u>	<u>131</u>	<u>(13,970)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(12,300)</u>	<u>(11,971)</u>	<u>329</u>	<u>(10,606)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (5,455)</u>	(6,100)	<u>\$ (645)</u>	(8,549)
FUND BALANCE, BEGINNING OF YEAR		<u>102,498</u>		<u>111,047</u>
FUND BALANCE, END OF YEAR		<u>\$ 96,398</u>		<u>\$ 102,498</u>

ELM RIVER TOWNSHIP SCHOOL DISTRICT
SCHOOL SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Food sales	\$ 1,855	\$ 1,838	\$ (17)	\$ 1,887
State sources	970	1,367	397	983
Federal sources:				
School lunch program	2,050	3,387	1,337	1,983
USDA entitlements	-	1,360	1,360	1,060
USDA bonus entitlements	-	170	170	238
Total federal sources	2,050	4,917	2,867	3,281
TOTAL REVENUES	4,875	8,122	3,247	6,151
EXPENDITURES:				
Salaries	12,200	12,092	108	11,420
Employee benefits	2,800	2,893	(93)	2,550
Purchase services	650	486	164	439
Supplies, materials, and other	5,500	6,249	(749)	5,405
TOTAL EXPENDITURES	21,150	21,720	(570)	19,814
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(16,275)	(13,598)	3,817	(13,663)
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	15,000	14,869	131	13,970
NET CHANGE IN FUND BALANCE	\$ (1,275)	1,271	\$ 3,948	307
FUND BALANCE, BEGINNING OF YEAR		1,504		1,197
FUND BALANCE, END OF YEAR		\$ 2,775		\$ 1,504



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COMMENTS AND RECOMMENDATIONS LETTER

Board of Education
Elm River Township School District
Toivola, Michigan

We have audited the financial statements of Elm River Township School District, for the year ended June 30, 2006, and have issued our report thereon dated September 20, 2006. As part of our audit, we made a study of the internal control structure to the extent we considered necessary and as required by generally accepted auditing standards.

Public Act 738 - Electronic Transactions of Public Funds

The District should be aware of Act 738 - "Electronic Transactions of Public Funds". This Act affects electronic payments and transfers by local unites, including school districts. The Act requires the District to adopt a resolution to authorize use of automated clearinghouse (ACH) arrangements. The District needs to designate an Electronic Transaction Officer, develop a written policy regarding procedures and internal controls, and initiate a board resolution to adopt the ACH policy. The Electronic Transaction Officer that the District chooses will be responsible for the ACH agreements that including payment approval, accounting, reporting, and compliance with the ACH policy.

Public Act 621 - Budget Over Expenditures

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the general purpose financial statements and the accompanying information. There were no material overages in the individual budgeted funds.

We would like to thank the administrative staff for the excellent cooperation we received during our audit.

This report is intended for the information of management, the cognizant audit agency and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

September 20, 2006